Forensic Accounting: Hidden balance of payments of the Philippines

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25 November 2006

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Abstract

An examination of the available data between 1990 and 2005 reveals that the balance of payments of the Philippines does not record large amounts of international transactions. Unrecorded international transactions for the 16-year period amount to US$ 192 billion (in 1995 prices). The results suggest a serious problem in the government's macroeconomic management of the Philippines, and expose a weak or weakening capacity in the governance of international transactions.

Key Words: *Balance of Payments, Unrecorded Transactions, Philippines*

The balance of payments (BOP) records the official international transactions of a country with the rest of the world for a given year. It presents an accounting of inflows and outflows of foreign exchange. However, studies show that some international transactions are either unrecorded or systematically mis-recorded in the BOP, including that of the Philippines' (cf. Boyce and Zarsky 1988; Boyce 1993; Vos 1992; Beja 2006a; Beja 2006b). For example, capital flight – funds that flee a country to avoid risks and uncertainties and/or social controls – is not recorded in the BOP, even though it implies an outflow of foreign exchange. Trade misinvoicing and smuggling are likewise not recorded in the BOP. Unrecorded international transactions make the BOP inaccurate and have policy implications.

This paper investigates the unrecorded or hidden components of the BOP of the Philippines from 1990 to 2005. The results show that the amounts of the unrecorded international transactions have been increasing in the 1990s and have reached US$ 192 billion (in 1995 prices) by 2005. Beja (2005) demonstrates that such unrecorded international transactions actually have nontrivial negative impacts on a country's macroeconomic performance. He argues that the result in the case of the Philippines has been a lost, and arguably, an unrecoverable, opportunity to take off to a higher economic growth path, which has ultimately meant lower social welfares for the Filipinos. Nevertheless, the country remains the weakest economic performer among the emerging East Asian economies.[a]

The rest of the paper focuses on the hidden components of the BOP of the Philippines. The next two sections discuss the framework and the methodology. The results are then discussed, followed by their implications. The last part concludes the paper.

UNHIDING THE HIDDEN

The paper follows the standard BOP accounting procedures, wherein official inflows of foreign exchange are recorded as credit items (i.e., additions) and official outflows are recorded as debit items (i.e., subtractions).[b] Because the BOP employs a double-entry approach, inflows (outflows) of foreign exchange have corresponding outflows (inflows). Unaccounted flows are recorded as errors and omissions (EO).[c] Therefore, the annual international transactions have an overall net balance of zero.

The standard BOP presentation has three main components: the current accounts (CA), the capital and financial accounts (KA), and the EO; or algebraically,[d]

$$(1) \qquad CA + KA + EO = Overall\ Balance.$$

A positive overall balance is called a BOP surplus; the reverse is a BOP deficit. Both cases need counterpart adjustments to arrive at the overall net balance of zero, specifically adjustments in the official settlement accounts. A BOP surplus means a net decrease in the financing accounts, with similar adjustments for a BOP deficit.[e] Thus,

$$(2) \qquad CA + KA + EO - Financing = Overall\ Balance - Financing = 0.$$

Since the motivations behind the unrecorded international transactions are hidden, calculating the figures involves forensic accounting. Upon estimation, the amounts are incorporated into the BOP, following the standard BOP accounting procedures.

There are three sets of adjustments for the BOP. The first set concerns CA – trade misinvoicing, for instance. Studies document that both import overinvoicing and export underinvoicing are typical avenues for unrecorded flows of foreign exchange (see, e.g., Bhagwati 1974). Other forms such as import underinvoicing and export overinvoicing also occur (see, e.g., Boyce 1993; Beja 2006). Import underinvoicing is typically done to evade customs duties and trade regulations. Export overinvoicing occurs when there are incentives based on the export performance of industries (such as income rebates on export revenues that can lead to invoice padding). Both are treated as unrecorded flows of foreign exchange; in any of these cases, the trade balance, and hence the current accounts, are inaccurate.

Three steps are followed to estimate trade misinvoicing (MIS). The first step is to compute export misinvoicing (DX) and import misinvoicing (DM) in the Philippines' trade with its key trade partners , specifically, the industrialized-country trade partners, using the equations:

(3a) $DX = PX - CIF^*X$;

(3b) $DM = M - CIF^*PM$,

where PX is the trade partner imports (i.e., the Philippines' exports as recorded by its industrialized-country trade partners) and PM is the trade partner exports (i.e., the Philippines' imports as recorded by its industrialized-country trade partners); X and M, respectively, represent the Philippines' exports to and imports from industrialized-country trade partners as recorded by the Philippines; and CIF is the adjustment for freight and insurance.[f] Positive values of DX and DM mean export underinvoicing and import overinvoicing, respectively. Negative DX and DM mean export overinvoicing and import underinvoicing, respectively.

The second step is to calculate the Philippines' global export and import trade discrepancies (MISX and MISM) by multiplying DX and DM with the reciprocal of the industrialized-country trade partners' shares to the Philippines' total exports (X_INDUS) and imports (M_INDUS), respectively:

(4a) $MISX = DX / X\_INDUS$;

(4b) $MISM = DM / M\_INDUS$.

The last step is to obtain MIS, which is the sum of MISX and MISM.

Another adjustment in CA is for unrecorded income remittances (UNREMIT) – an adjustment that is particularly relevant for the Philippines because of increasing income remittances (REMIT) from overseas Filipino workers. If informal remittances are large, unrecorded flows of foreign exchange are also large. UNREMIT is obtained by extrapolating the amount using REMIT and a measure for unrecorded flows (UNREMIT Index).[g] Thus,

(5) $UNREMIT = REMIT * UNREMIT\ Index$.

A second set of adjustments concerns KA; for instance, the impact of exchange rate fluctuations on capital flows. Long-term debts (LTDEBT) are denominated in a mix of hard currencies, but exchange rate fluctuations affect the United States dollar (US$) valuation of debts. It implies that net additions to external debts (CDET) are inaccurate when exchange rate fluctuations are disregarded. The beginning-of-year adjusted debt (ATTD) that accounts for the exchange rate fluctuations is computed as:

(6) $$ATTD_{t-1} = \sum_{i\,=\,EU,\,UK,\,FF,\,DM,\,Yen,\,SF}[(\alpha_{i,t-1} * LTDEBT_{t-1})(FX_{i,t}/FX_{i,t-1})] + \sum_{i\,=\,US\$,\,MULT,\,OTHER}(\beta_{i,t-1} * LTDEBT_{t-1})$$
$$+ IMF_{t-1}(SDR_t/SDR_{t-1}) + STDEBT_{t-1},$$

where α_i is the proportion of the long-term debts in Euros (EU), British pounds (UK), French francs (FF), German marks (DM), Japanese yen (Yen), and Swiss francs (SF); β_i is the proportion of LTDEBT in US$, multiple, and other currencies; FX is the exchange rate between the hard currencies and US$; IMF means the use of IMF Credits; SDR is the exchange rate between Special Drawing Rights and US$; and STDEBT means short-term debts.[h] All things being the same, an appreciation of the hard currencies relative to US$ reduces $FX_{i,t}/FX_{i,t-1}$ and $ATTD_{t-1}$.

The adjustment factor (ADEBT) for the impact of exchange rate fluctuations on DEBT is calculated as: $ADEBT = ATTD_{t-1} - DEBT_{t-1}$. Appreciation of the hard currencies relative to US$ makes $ATTD_{t-1}$ less than $DEBT_{t-1}$, such that ADEBT is negative. Thus, the adjusted annual flow of external debt ($CDET_{ADJ}$) is

$$(7) \qquad CDET_{ADJ} = CDET - ADEBT.$$

Since $CDET = DEBT - DEBT_{t-1}$, it follows that

$$(8) \qquad CDET_{ADJ} = DEBT - ATTD_{t-1}.$$

$CDET_{ADJ} - CDET$ gives an estimate for unrecorded flows of foreign exchange.

Another adjustment in KA is for the discrepancies in the non-debt capital inflows (NKI), comprising of foreign direct investments (FDI) and portfolio equities investments plus other investment assets (PORT). The procedure is basically the same as the one described for $CDET_{ADJ}$. First, the discrepancies in FDI (PORT) data between the source country and the Philippines are obtained; then, the impact of the foreign exchange fluctuations on the US$ valuation of FDI (PORT) are computed. Adjusted FDI (FDI_{ADJ}) and adjusted PORT ($PORT_{ADJ}$) are obtained, such that $FDI_{ADJ} - FDI$ and $PORT_{ADJ} - PORT$ give the estimates for the unrecorded investment flows.[i]

Using $CDET_{ADJ}$, FDI_{ADJ}, and $PORT_{ADJ}$, the unrecorded flows of foreign exchange called financial flight (KF) is calculated as the residual between the adjusted recorded sources and the uses of funds. The sources of funds are $CDET_{ADJ}$ and adjusted net non-debt capital inflows (NKI_{ADJ}), the latter including FDI_{ADJ} and $PORT_{ADJ}$. The uses of funds are the current account deficits (CAD) and net additions to international reserves (plus other uses of foreign exchange) (CRES). The EO is subtracted because it gives the official statistics for unrecorded international transactions; thus,

$$(9) \qquad KF = CDET_{ADJ} + NKI_{ADJ} - CAD - CRES - EO.$$

With Equations 4, 5, and 9, the estimated unrecorded international transactions are then recorded as adjustment entries in the BOP. It is initially necessary to assume that the EO, the overall balance, and the official settlements accounts remain constant to obtain estimates for other unrecorded international transactions called other counterpart adjustments. This latter amount is used for the third set of adjustments that concerns EO, wherein estimates of other counterpart adjustments are added to EO to obtain adjusted EO.[j] After all the adjustments, the BOP must have an overall net balance of zero.

Raw data are from the World Bank's *Global Development Finance* and the IMF's *International Financial Statistics* and *Direction of Trade Statistics*.

RECORDING THE UNRECORDED

The (official) balance of payments (BOP) of the Philippines is presented in Table 1, together with the estimated unrecorded international transactions. Table 1 shows a current account (CA) deficit of US$ 2.7 billion in 1990. The estimated unrecorded international transactions include US$ 1.5 billion for trade misinvoicing (MIS) and US$ 732 million for unrecorded remittances (UNREMIT), with a total of US$ 2.2 billion. After accounting for these amounts, the adjusted CA (CA_{ADJ}) in 1990 still registers a deficit of US$ 456 million (Table 2), smaller than that of the official statistics. Hence, the CA is underestimated by about US$ 2.2 billion.

Table 1 also shows a financial account (FA) surplus of US$ 2.1 billion in 1990. The estimated unrecorded international transactions for financial flight total US$ 1.1 billion. The adjusted FA (FA_{ADJ}) in 1990 is still a surplus, but at a smaller amount of US$ 972 million (Table 2). The official FA is therefore overestimated by more than US$ 1 billion. Other counterpart adjustments of US$ 1.2 billion lead to the adjusted errors and omissions (EO_{ADJ}) of US$ 562 million. Total unrecorded international transactions for 1990 is US$ 4.8 billion (in 1995 prices).

The results for the succeeding years are interpreted in the same way. Again, with Table 1, the CA is at a US$ 2.4 billion surplus in 2005. The estimated unrecorded transactions include US$ 2.7 billion for MIS and US$ 3.1 billion for UNREMIT, with a total of US$ 5.8 billion. The CA_{ADJ} reports an even bigger surplus at US$ 8.2 billion (Table 2). The CA in 2005 is therefore underestimated by about US$ 6 billion. The FA is also at a surplus of US$ 820 million in 2005. The estimated unrecorded international transactions for financial flight leads to a total of US$ 1.9 billion, and FA_{ADJ} becomes a deficit at US$ 1.1 billion (Table 2). Thus, FA in 2005 is overestimated by US$ 1.9 billion. With other counterpart adjustments of US$ 4 billion, EO_{ADJ} for 2005 is US$ 4.7 billion. In 2005 alone, total amount of unrecorded international transactions is US$ 11 billion (in 1995 prices).

For the period 1990-2005, total unrecorded transactions is US$ 192 billion, US$ 34 billion of which is trade misinvoicing, US$ 32 billion is unrecorded remittances, US$ 81 billion is financial flight, and US$ 45

Table 1. *Balance of payments of the Philippines, 1990-2005 (US$ millions).*

MAIN ACCOUNTS	1990	1991	1992	1993	1994	1995	1996	1997
Current Accounts	-2,695	-1,034	-1,000	-3,016	-2,950	-1,980	-3,953	-4,351
Capital Accounts	0	0	1	0	0	0	0	0
Financial Accounts	2,057	2,927	3,208	3,267	5,120	5,309	11,277	6,498
Errors and Omissions	593	-138	-520	85	157	-2,094	-2,986	-5,241
Overall Balance	-45	1,755	1,689	336	2,327	1,235	4,338	-3,094
Net Financing	45	-1,755	-1,689	-336	-2,327	-1,235	-4,338	3,094
UNRECORDED TRANSACTIONS								
Trade Misinvoicing	1,507	2,300	821	560	2,507	1,632	858	2,766
Unreported Remittances	732	925	1,268	1,164	1,553	2,412	1,950	2,720
Financial Flight	-1,085	-2,007	-3,740	-2,642	-4,021	-6,703	-10,913	-16,713
Other Counterpart Adjustments	-1,154	-1,217	1,651	918	-40	2,659	8,105	11,228

MAIN ACCOUNTS	1998	1999	2000	2001	2002	2003	2004	2005
Current Accounts	1,546	7,219	6,258	1,323	4,383	1,396	2,080	2,354
Capital Accounts	0	-8	38	-12	-19	23	-23	40
Financial Accounts	483	-2,250	-4,042	-745	-2,399	-1,716	-2,977	820
Errors and Omissions	-750	-1,311	-2,630	-270	-2,076	218	-667	-807
Overall Balance	1,279	3,650	-376	296	-111	-79	-1,587	2,407
Net Financing	-1,279	-3,650	376	-296	111	79	1,587	-2,407
UNRECORDED TRANSACTIONS								
Trade Misinvoicing	-540	1,412	4,752	2,847	3,799	2,632	3,159	2,736
Unreported Remittances	2,052	2,108	2,118	2,702	2,582	2,728	3,078	3,073
Financial Flight	-3,624	-6,683	-7,706	-2,637	-6,050	-2,391	-3,332	-1,882
Other Counterpart Adjustments	2,112	3,163	836	-2,912	-331	-2,969	-2,905	-3,927

Sources of raw data: Global Development Finance; International Financial Statistics; Direction of Trade Statistics
Note: Calculations of the author.

Table 2. *Balance of payments of the Philippines, adjusted, 1990-2005 (US$ millions).*

MAIN ACCOUNTS	1990	1991	1992	1993	1994	1995	1996	1997
Current Accounts, adj.	-456	2,191	1,089	-1,292	1,111	2,064	-1,145	1,134
Capital Accounts, adj.	0	0	1	0	0	0	0	0
Financial Accounts	972	920	-532	625	1,099	-1,394	364	-10,215
Errors and Omissions, adj.	-562	-1,355	1,131	1,003	117	566	5,119	5,986
Overall Balance	-45	1,755	1,689	336	2,327	1,235	4,338	-3,094
Net Financing	45	-1,755	-1,689	-336	-2,327	-1,235	-4,338	3,094
UNRECORDED TRANSACTIONS (Table 1)								
Total Unrecorded Transactions	4,478	6,449	7,480	5,284	8,121	13,407	21,826	33,426
Total Unrecorded Transactions (1995 Prices)	4,806	6,906	7,963	5,544	8,412	13,407	21,325	32,681

MAIN ACCOUNTS	1998	1999	2000	2001	2002	2003	2004	2005
Current Accounts, adj.	3,058	10,739	13,128	6,872	10,764	6,756	8,317	8,163
Capital Accounts	0	-8	38	-12	-19	23	-23	40
Financial Accounts, adj.	-3,141	-8,933	-11,748	-3,382	-8,449	-4,107	-6,309	-1,062
Errors and Omissions, adj.	1,362	1,852	-1,793	-3,182	-2,407	-2,751	-3,572	-4,734
Overall Balance	1,279	3,650	-376	296	-111	-79	-1,587	2,407
Net Financing	-1,279	-3,650	376	-296	111	79	1,587	-2,407
UNRECORDED TRANSACTIONS (Table 1)								
Total Unrecorded Transactions	8,329	13,367	15,412	11,098	12,763	10,720	12,475	11,619
Total Unrecorded Transactions (1995 Prices)	8,350	13,290	14,486	10,318	12,144	10,080	11,731	10,968

Note: Calculations of the author.

is other unrecorded transactions. On the average, the Philippines experiences US$ 2 billion of trade misinvoicing and unrecorded remittances, US$ 5 billion of financial flight, and another US$ 2.8 billion of other unrecorded flows each year. These large amounts remain unrecorded in the BOP. If they are employed in the Philippines, they can contribute to enlarging the productive activities in the country.

IMPLICATIONS

Tables 1 and 2 reveal that large amounts of unrecorded international transactions remain hidden from the balance of payments (BOP) of the Philippines. The tables also show that unrecorded international transactions have been increasing since the 1990s. The deregulation and liberalization of the economy, coupled with the weak or weakening capacity in the governance of international transactions, create more opportunities for trade misinvoicing, unrecorded remittances, financial flight, and other unrecorded transactions. The increasing volumes and volatilities of trade and finance also contribute to the phenomenon of increasing unrecorded international transactions and undermining what is left of the government's capacity to regulate them.

The current situation shows the severity of unrecorded international transactions as not only destabilizing to the domestic macroeconomy, but also posing as threats to government actions aimed at reinstituting measures to manage resource flows. Consequently, the avenues for such transactions are well-exploited and are ignored by the government.

The results point to fundamental problems with regard to the government's capacity to manage the macroeconomy, especially its capability to regulate international transactions. As such, it is difficult to direct, say, investments into productive domestic endeavors to enlarge the country's output and create jobs, thereby supporting domestic industrialization and realizing broad-based economic performances. The unrecorded international transactions also point to other fundamental problems that are left unaddressed by the government, among which are: a prevailing disinterest to undertake domestic investments, significant underutilized domestic productive capacities, unending domestic political crises, a malfunctioning bureaucracy, widespread corruption, quick reversals in policies, and the absence of an autonomous political base for carrying out programs. These issues reinforce prevailing concerns that current political survival has compromised the direction of policies and has, at the same time, strengthened doubts about the Philippines' ability to sustain macroeconomic recovery and to improve the social conditions of the Filipinos. Thus, resource flows are likely to be short-term and to be going into speculative (e.g., stock market and real estate) and non-productive activities (e.g., consumption binges), which fuel financial and asset bubbles, encourage risky investment behavior, and produce economic crises like the 1997-98 Asian crisis. Additionally, more funds end up being misallocated as resource flows increase to take advantage of the situation. Given the nature of crises, macroeconomic conditions are further undermined, thereby worsening the reductions in domestic investments, intensifying the domestic uncertainties, and so on. Crises are extended in such a case and the social costs are magnified.

Even when the macroeconomic conditions indicate that robust performances can be maintained, increasing resource flows end up contributing to increasing the unrecorded international transactions. The bigger amounts of unrecorded transactions are more difficult to control. In fact, the government misjudges the increasing resource flows as a vote of confidence to the state-of-affairs or fails to notice the increasing unrecorded international transactions and concludes that its withdrawal from macroeconomic management and disregard of unrecorded international transactions are in the right direction.

There is therefore a need to rethink policy in the Philippines and to reconsider macroeconomic management and to regulate international transactions. An important step in this direction is a reapplication of capital management and related techniques designed to strengthen the government's capacities including its administrative capability for managing the macroeconomy and regulating resource flows (cf. Rodrik 1998; Palma 2000; Stiglitz 2002; Epstein et al. 2005). Such techniques must not be seen as a return to economic repression; rather, they must be seen as enabling the government to regain its control over the direction of policies, especially in disciplining speculative and unproductive activities. They provide space for the government to design programs that are appropriate to the country, especially in supporting robust macroeconomic performances, enlarging the opportunities of the Filipinos, and raising their social welfare in the end. Concerns such as unsustainable current account deficit, unsound fiscal deficit and debt management, unstable inflation, uncompetitive foreign exchange rates, interest rates that discourage savings intermediation, environments unfavorable for domestic investments, and so on, still remain to be important concerns and have to be addressed by the government. Accompanying such actions, it is crucial for the government to strengthen its macro-organizational fundamentals, covering aspects like enhanced institutional capacities to negotiate internal and external challenges to policy making, sound structures for effective implementation of programs, and so on. Effective governance means that the government is in the center of macroeconomic management and policy making.

Philippine policy makers must therefore reconsider the implications posed by large unrecorded international transactions and introduce appropriate measures to reverse the situation. It is important that policy makers are made aware of what is happening in the country – even though there are no apparent signs of an economic crisis, for instance, or even if they do not like what they hear. Policy makers have to be aware that there are serious consequences if they do not act or if they act incorrectly. Indeed, an important lesson from past crises is that policy mistakes can have negative consequences on the economy and that it is more sensible to take a precautionary stance to policy even when the macroeconomy is doing well. Recent strong macroeconomic performances can mislead policy makers to think that their under or non-regulation of international transactions is vindicated by the increasing resource flows, so the government must continue to withdraw from managing the macroeconomy and regulating international transactions. Renewed confidence in the Philippines after years of being passed over by international finance can also propel policy makers to a mania of catching up, which is dangerous, given that the country has largely been deregulated and liberalized and that the government's capacity is weak or has been weakened. Interestingly, policy makers do not or cannot see the problem or they do but incredibly fail to address the problem. The weak or weakened governance capacity means that unrecorded international transactions are going to be tolerated or disregarded by the government. Unless there are fundamental changes in the way the government sees the problems, and acts on them, the situation will remain unaddressed.

CONCLUSION

An examination of the balance of payments (BOP) of the Philippines was undertaken to determine the magnitude of unrecorded international transactions. Using available data from the World Bank's and the IMF's databases, the results show that large amounts of resource flows remain hidden from the BOP of the Philippines, amounting to US$ 192 billion (in 1995 prices) for the period 1990-2005. Results indicate that the magnitude of unrecorded international transactions has been increasing, and they point to a problem in the direction of the government's macroeconomic management of the country. More importantly, they point to a weak or weakening capacity in the governance of international transactions.

After the Philippines has embarked on deregulation and liberalization programs, the government failed to strengthen its regulatory apparatus. The ensuing resource flows are seen as a vote of confidence on the macroeconomy and a vindication of the reforms. As a result, policy makers are encouraged to carry out further deregulation and liberalization and remove the government macroeconomic management. With a weak or weakened capacity to regulate international transactions, more opportunities are available for trade misinvoicing, unreported remittances, financial flight, and other unrecorded transactions, and they have been exploited quite well. Crises of course can reinforce this trend. It is now necessary to revisit capital management and related techniques to strengthen the government's capacities and capabilities to regain its control of the macroeconomy and to regulate international transactions.

Lastly, it is important to challenge the government with unsympathetic criticism, even to the extent of condemning the current direction of policies and governance to "open its eyes" to the need to have sound governance of resource flows and not revert to economic repression. It is also important to challenge the government to rethink about reforms to reduce internal and external shocks vulnerabilities, establish its autonomy, and maintain an effective political base to carry out its programs. Such an advocacy is needed towards a more careful analysis of the alternatives for the Philippines. Unless the government responds proactively to consider the alternatives, it is condemning the Philippines to the perpetuity of crises: the continuity of narrow, shallow, and hollow macroeconomic performances and the permanence of poverty of the Filipinos.

ENDNOTES

[a] Emerging East Asia economies comprise the Newly Industrializin Economies (NIEs). Taiwan (Province of China), Hong Kong SAR, Singapore, and South Korea comprise the first tier NIEs; Indonesia, Malaysia, the Philippines, and Thailand comprise the second tier NIEs; and Vietnam and China comprise the third tier NIEs.

[b] See IMF (1996) for details on the BOP accounting.

[c] "In practice [ ], the accounts frequently do not balance. Data for balance of payments [are] often derived independently from different sources; as a result, there may be a summary of net credits or net debits (i.e., net errors and omissions in the accounts). […] Because inaccurate or missing estimates may be offsetting, the size of the [errors and omissions] cannot be taken as an indicator of the relative accuracy of the balance of payments [ ]" (IMF 1996; p. 6). Errors and omissions can occur in the process of compilation. If that

is the case, the size of errors and omissions will be stable or minimal and will not exhibit any pattern.

[d] The current accounts refer to "transactions (other than those in the financial items that involve economic values and occur between resident and nonresident entities. Also covered are of sets to economic values provided or acquired without a quid pro quo. Specifically, major classifications [are:] goods and services, income, and current transfers" (IMF 1996; p. 38). The capital accounts include the following items: "(i) capital transfers and (ii) acquisition or disposal of nonproduced, nonfinancial assets" (IMF 1996; p. 77). Capital account items are different from current transfers. Financial accounts include items like "financial assets [and investments] including the claims of nonresidents [; that is, the foreign liabilities of the economy or] indebtedness to nonresidents (IMF 1996; p. 78). "The convention [is that] ownership of some nonfinancial assets [is] construed as ownership of financial assets" (IMF 1996; p. 78). Note that "the reinvested earnings of a direct investment enterprise (which accrue to a direct investor in proportion to participation in the equity of the enterprise) are recorded in the current accounts […] as paid to the direct investor as investment income on equity and in the financial accounts as being reinvested in the enterprise" (IMF 1996; p. 78).

[e] BOP Financing covers the following items: Use of International Foreign Reserves, Exceptional Financing, Short-term External Borrowings, and/or the Use of the International Monetary Fund (IMF) Credits.

[f] Trade data between the Philippines and its industrialized-country trading-partners are used in all the calculations. The rationale of this approach is that information from industrialized countries is expected to be more reliable compared to the data from the developing-countries-trading-partners.

[g] Ideally, survey data are used to obtain a measure of unrecorded remittances. The share of MIS to CA can be used as a proxy for UNREMIT Index.

[h] Because the currency composition of MULT, OTHER, and STDEBT are not available, their dollar valuations remain unadjusted.

[i] Because the currency composition of FDI and PORT are not available, their dollar valuations remain unadjusted.

[j] Calculations do not cover all types of unrecorded international transactions. Illegal transactions (e.g., money laundering) are not covered in the calculations. It can be argued that the adjustments introduced in the BOP are minimum adjustments.

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